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SUBJECT: Jordan's Trade Deficit Widens Significantly

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¶1. (U) Summary: Jordan's trade deficit increased 23.4% to \$7.8 billion in 2007, equivalent to about one-half of its GDP (reftels). Jordanian economists attribute the expanding trade gap primarily to a 17.2% increase in imports, which reached \$13.5 billion. The Government of Jordan (GOJ) reported that imports from Europe, in particular, grew 22.7% in 2007, while imports from the U.S. increased 13.6%, due in part to the purchase of aircraft. The increase in American imports offset the 5% decrease in total Jordanian exports to the U.S. in 2007, yielding an overall increase in U.S.-Jordan trade and a more favorable trade balance towards the United States. While the U.S. remains Jordan's top trading partner, the Greater Arab Free Trade Area (GAFTA) remains Jordan's largest export-import market, which includes the purchase of crude oil from Saudi Arabia. End Summary.

Overall Trade -----

¶2. (U) According to the GOJ Department of Statistics (DOS), Jordan's trade deficit widened 23.4% in 2007 to JD 5.552 billion (\$7.842 billion) due to an increase in imports that was greater than an increase in exports. Total Jordanian exports (domestic exports and re-exports) only increased 9.5% to JD 4.041 billion (\$5.708 billion) in 2007. By commodity, pharmaceutical exports (9% of national exports) increased by 42%, agricultural products (8% of exports) by 70%, fertilizers (8.6% of exports) by 20.6%, potash (7% of exports) by 26%, and phosphate (4% of exports) by 22.5%. Apparel, which makes up almost one-third of all exports and is exported mainly to the U.S. from the Qualifying Industrial Zones (QIZs), dropped by 4.4%. All other goods (36% of exports) also decreased by 2.2%. The U.S. and India were the two largest importers of Jordanian goods.

¶3. (SBU) DOS reported that Jordanian imports increased 17.2% to JD 9.593 billion (\$13.549 billion). In particular, the value of Jordanian imports of crude oil increased slightly by 2.1% to JD 1.465 billion (\$2.07 billion), while imports of machinery and equipment increased about 39% to JD 1.67 billion (\$2.35 billion), making up almost one-fifth of all imports. Imports of steel also increased by 27.5% and imports of cereals rose by 75.3%. Vehicles (6% of total imports) declined, however, by 3.6%. Despite the dinar losing value against a strengthening euro, Jordanian imports from Europe saw a notable 22.7% rise to JD 2.365 billion (\$3.34 billion). Ministry of Industry and Trade Secretary General Montaser Oklah explained to Econoffs that although European products cost more, Jordanian importers first look to Europe for goods because of proximity.

¶4. (U) According to Jordanian government figures, the U.S. remains the largest importer of Jordanian goods, despite a 5% drop in total Jordanian exports to the U.S. to JD 880 million (\$1.24 billion) in 2007, compared to 924 million (\$1.3 billion) in 2006. This change largely reflects the slight decline in Jordan's worldwide garment exports to JD 842.5 million (\$1.19 billion) for which the U.S. is the largest market.

¶5. (U) DOS records show that U.S. exports to Jordan increased 13.6% to JD 447 million (\$631 million) in 2007. This rise offset the decrease in Jordanian exports to the U.S., resulting in an overall increase in the total bilateral trade to \$1.87 billion, and a decrease in the U.S. trade deficit with Jordan to \$612 million in 2007, compared to \$749 million in 2006. NOTE: USITC calculations differ slightly from the GOJ, showing bilateral trade at \$2.19 billion and the U.S. trade deficit with Jordan at \$477 million for ¶2007. END NOTE.

Greater Arab Free Trade Area: Exports to Iraq Rising

¶6. (U) In 2007, Jordan increased exports by 10.3% to JD 1.3 billion (\$1.84 billion) to the GAFTA countries, making the economic grouping Jordan's largest trading region. In particular, Jordanian exports to Iraq grew 15% to JD 376 million (\$531 million), compared to JD 327 million (\$462 million) in 2006. The most significant exports to Iraq in 2007 were vegetables, aluminum and aluminum by-products, tobacco, bottled water, cables (for electrical use), pharmaceuticals, plastics, vegetable and olive oil, margarine, and feed concentrates. Jordan also imported JD 3.2 billion (\$4.5 billion) in goods from the GAFTA, which comprised 33% of Jordan's

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total imports. Imports from these Arab countries represented a 10.5% increase over last year.

Economists Studying the Trade Deficit

¶7. (U) Jordanian economists and pundits have been examining the trade deficit to determine whether it represents a loss of competitiveness of Jordanian exports. In a February 19 op-ed in the Jordan Times, economic journalist Yusuf Mansur noted that the prices of industrial production increased 8.2% in 2007, while manufacturing output grew by only 2.2%, indicating that Jordan did not increase production nor import more in terms of real goods, but rather paid more for the same goods. He argued, therefore, for increasing the exchange rate value of the dinar -- currently JD 1 = \$1.41 -- against the weakening U.S. dollar. The Central Bank of Jordan has maintained that Jordan has no plans to end the dinar-dollar peg.

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